

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name Harbor Beach Community Fire Protection	County Huron
Fiscal Year End December 31, 2005	Opinion Date August 7, 2007	Date Audit Report Submitted to State August 15, 2007	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

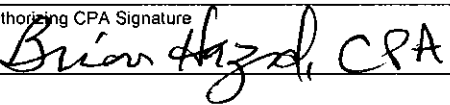
YES  
NO

**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>	No other reports required		
Certified Public Accountant (Firm Name) Nietzke & Faupel, PC		Telephone Number (989) 883-3122		
Street Address 41 E. Main St.		City Sebewaing	State MI	Zip 48759
Authorizing CPA Signature 		Printed Name Brian Hazard, CPA		License Number 1101014007

**HARBOR BEACH COMMUNITY FIRE  
PROTECTION ASSOCIATION  
HURON COUNTY**

**FINANCIAL STATEMENTS  
DECEMBER 31, 2005**

# **HARBOR BEACH COMMUNITY FIRE PROTECTION ASSOCIATION**

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## INDEPENDENT AUDITOR'S REPORT

Harbor Beach Community Fire  
Protection Association  
Harbor Beach, Michigan 48441

We have audited the accompanying financial statements of the business-type activities of the Harbor Beach Community Fire Protection Association, Harbor Beach, Michigan, as of and for the year ended December 31, 2005, which comprise the Association's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Harbor Beach Community Fire Protection Association, Harbor Beach, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Harbor Beach Community Fire Protection Association, Harbor Beach, Michigan, as of December 31, 2005, and the respective changes in financial position and cash flows, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages 2 through 4 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Nietzke & Faupel, PC*  
NIETZKE & FAUPEL, P.C.  
PIGEON, MICHIGAN

August 7, 2007

# HARBOR BEACH COMMUNITY FIRE PROTECTION ASSOCIATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005

### Introduction

The discussion and analysis of Harbor Beach Community Fire Protection Association financial performance provides an overview of the Association's financial activities for the year ended December 31, 2005. This report is a part of the Association's Annual Report.

The purpose of the Association is to provide fire protection, emergency medical services, and other related services to the City of Harbor Beach and Sand Beach Township. The funding and operation of the Association remains the same under the agreement between the Association and each constituent unit. The Association is overseen by the Governing Board which consists of two trustees from each constituent unit and a member selected at large. The major source of funding for the Association is by an annual subsidy provided by each constituent unit. The formula consists of SEV of real property, number of housing units, number of road miles, number of fire runs and population per constituent. These dollars are budgeted by the Association and then approved by the Association's Governing Board, the City council and the Township board.

### Using the Annual Report

This annual report consists of a series of financial statements as follows:

- ▶ **The Statement of Net Assets** presents information on all of the Association's assets and liabilities, with the difference between the two reported as net assets.
- ▶ **The Statement of Revenue, Expenses and Changes in Net Assets** presents information showing how the Board's net assets changed during the most recent year. All changes in net assets are reported on an accrual basis, that is, the event is recorded in the accounting records when the underlying event takes place regardless of the timing of the related cash flows.
- ▶ **The Statement of Cash Flows** presents the financial activities of the Association on a cash received and cash paid basis. This statement also reconciles the change in cash accounts for the Board from the prior year to the current year.
- ▶ **Notes to the Financial Statements** provide additional details underlying the data provided in the financial statements.

### Financial Highlights

The Statement of Net Assets outlines the assets, liabilities and net assets of the Association. The total assets increased from \$361,407 in the prior year to \$407,314 in the current year, an increase of \$46,907. The current year assets include:

	12/31/05		12/31/04	
Unrestricted current assets				
(cash, investments, and receivables)	\$ 80,556	19.99%	\$ 61,362	16.98%
Capital Assets	<u>326,758</u>	<u>80.01%</u>	<u>300,045</u>	<u>83.02%</u>
<b>Total Assets</b>	<b><u>\$407,314</u></b>	<b><u>100.00%</u></b>	<b><u>\$361,407</u></b>	<b><u>100.00%</u></b>

# HARBOR BEACH COMMUNITY FIRE PROTECTION ASSOCIATION

## MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005

The change in assets from the prior year were:

	12/31/05	12/31/04
Unrestricted current assets (cash, investments, and receivable)	\$ 19,194	\$ 34,531
Restricted current assets (cash and investments)		(151,581)
Capital Assets	<u>26,713</u>	<u>178,213</u>
<b>Total Change in Assets</b>	<b>\$ <u>45,907</u></b>	<b>\$ <u>61,193</u></b>

The total liabilities increased from \$912 to \$2,184. This increase is due to the accounts payable.

The change in net assets of \$43,975 as shown on the Statement of Revenues, Expenses, and Changes in Net Assets includes:

	12/31/05	12/31/04
Operating income (loss)		
(operating revenues less operating expenses)	\$ (14,190)	\$ 38,725
Non-Operating Revenues	<u>58,165</u>	<u>55,000</u>
<b>Change in net assets</b>	<b>\$ <u>43,975</u></b>	<b>\$ <u>93,725</u></b>

This change in net assets increased the net assets from \$361,155 at the beginning of the year to \$405,130 at the end of the year. The total net assets includes \$326,758 for capital assets net of related debt, with the remainder amount \$78,371 unrestricted. Grants totaling \$56,922 were received during the year and were used to purchase firemen coats and bunker pants.

The Association realizes nearly all of its operating revenue is from the annual subsidy from the City of Harbor Beach and Sand Beach Township. The City of Harbor Beach in the amount of \$47,197 comprise 49% of the revenue while the subsidy from Sand Beach Township in the amount of \$48,373 comprise the remaining 51%. Total operating revenue increased by \$4,552 or 5.0% from the prior year. The relative percentages for sources of revenue did not change significantly from one year to the next.

The largest expense is depreciation making up \$39,489 or 34.74% of the expenses. Insurance in the amount of \$15,594 represent 13.72% of the expenses. Personal services and materials makes up the remaining \$58,588 or 51.54% of the total expenses. Total operating expenses increased \$16,449 or 16.92% from the prior year due to the increase in depreciation expense and insurance costs.

# **HARBOR BEACH COMMUNITY FIRE PROTECTION ASSOCIATION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS FOR THE YEAR ENDED DECEMBER 31, 2005**

The non-operating revenue of the prior year was \$56,386 as compared to \$58,165 in the current year. The interest income portion of non-operating revenue was \$5,296 in the prior year compared to \$1,243 in the current year. The increase is from a FEMA grant to purchase new equipment.

During the year 2005 there were no significant variations between the actual revenues and expenses and the budgeted revenues and expenses as approved by the Governing Board, the City Council, and the Township Board. The overall financial position of the Association has not significantly changed from the prior year as the agreement for services and funding between the Association, the City, and the Township has remained fundamentally the same.

### **Requests for Information**

This financial report is designed to provide citizens of the City of Harbor Beach and Sand Beach Township with a general overview of the Association's finances and to show accountability for the funding it receives. Questions concerning any of the information in this report should be addressed to:

Marilyn Townley, Secretary/Treasurer  
Harbor Beach Community Fire Protection Association  
Harbor Beach, MI 48441

# HARBOR BEACH COMMUNITY FIRE PROTECTION ASSOCIATION

## STATEMENT OF NET ASSETS DECEMBER 31, 2005

<b>Current assets:</b>	
Cash and investments	\$ 80,556
<b>Non-current assets:</b>	
<b>Capital assets:</b>	
Land (Non-depreciated)	8,544
Buildings	148,650
Equipment	802,097
Accumulated depreciation	(632,533)
Total non-current assets, net of accumulated depreciation	326,758
<b>Total assets</b>	<u>407,314</u>
<b>Current liabilities:</b>	
Accounts payable	1,686
Accrued payroll liabilities	498
<b>Total liabilities</b>	<u>2,184</u>
<b>Net assets:</b>	
Investment in capital assets	326,758
Unrestricted	78,371
Total net assets	<u>\$ 405,130</u>

The accompanying notes are an integral  
part of the financial statements.



# **HARBOR BEACH COMMUNITY FIRE PROTECTION ASSOCIATION**

## **STATEMENT OF REVENUE, EXPENSES, AND CHANGE IN NET ASSETS FOR THE YEAR ENDED DECEMBER 31, 2005**

<b>OPERATING REVENUES:</b>	
Operating contributions:	
City of Harbor Beach	\$ 47,197
Sand Beach Township	48,373
Miscellaneous income	3,911
Total operating revenue	<u>99,481</u>
<b>OPERATING EXPENSES:</b>	
Advertising and promotional	589
Depreciation expense	39,489
Education and milage	285
Fuel	2,160
Insurance	15,594
Memberships and dues	272
Miscellaneous expense	1,901
Professional fees	884
Repairs and maintenance	10,078
Supplies	2,407
Taxes - FICA	2,220
Telephone	2,336
Utilities	8,171
Wages	27,284
Total operating expenses	<u>113,671</u>
Operating (loss)	<u>(14,190)</u>
<b>NON-OPERATING REVENUES:</b>	
Interest income	1,243
Grants	56,922
Total non-operating revenues	<u>58,165</u>
<b>CHANGE IN NET ASSETS</b>	43,975
<b>NET ASSETS AT JANUARY 1, 2005</b>	361,155
<b>NET ASSETS AT DECEMBER 31, 2005</b>	<u><u>\$ 405,130</u></u>

The accompanying notes are an integral  
part of the financial statements.

# **HARBOR BEACH COMMUNITY FIRE PROTECTION ASSOCIATION**

## **STATEMENT OF CASH FLOWS FOR THE YEAR ENDED MARCH 31, 2005**

### **CASH FLOWS FROM OPERATING ACTIVITIES:**

Cash received from township and city for fire service	\$ 95,570
Cash received from miscellaneous income	4,572
Cash payments to employees	(27,284)
Cash payments to suppliers for materials and services	(45,627)

<b>Net cash provided by operating activities</b>	<u>27,231</u>
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### **CASH FLOWS FROM CAPITAL AND RELATED**

#### **FINANCING ACTIVITIES:**

Capital assets purchased	(66,202)
Grant income	56,922

<b>Net cash (used) by capital and related financing activities</b>	<u>(9,280)</u>
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### **CASH FLOW FROM INVESTING ACTIVITIES:**

Interest income	<u>1,243</u>
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<b>NET INCREASE IN CASH</b>	19,194
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<b>CASH AT JANUARY 1</b>	61,362
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<b>CASH AT DECEMBER 31</b>	<u>\$ 80,556</u>
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### **Reconciliation of operating (loss) to net cash flows from operating activities:**

Operating (loss)	\$ (14,190)
Add depreciation expense	39,489

#### **Changes in current assets and current liabilities:**

##### **Decrease in current assets:**

Accounts receivable	661
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##### **Increase (decrease) in current liabilities:**

Accrued payroll	(414)
Accounts payable	1,688

<b>Net cash provided by operating activities</b>	<u>\$ 27,231</u>
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# **HARBOR BEACH COMMUNITY FIRE PROTECTION ASSOCIATION**

## **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The financial statements of the Association have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

#### **Reporting Entity**

The Association was formed pursuant to the terms of an interlocal agreement dated September 10, 1984. The Association began operations February 1, 1985 and its purpose is to provide fire protection to the residents and property owners of the constituent units which include the City of Harbor Beach and Sand Beach Township in Huron County, Michigan.

The Association operates under an appointed Board. The Board consists of two representatives from each constituent unit. All representatives are appointed by their respective governing bodies by resolution and serve following appointment until a successor is appointed. Any constituent unit may appoint an alternate member who may sit on the Board in the absence of a regular member and have all of the powers and duties of a regular member. A Board member is eligible for re-appointment at the expiration of his or her term of office. A Board member must be a resident of the constituent unit which he or she represents. A Board member shall not be an employee of any fire department of the Association. Each year the Board selects one additional Board member who must also be a resident of one of the constituent units.

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14 "The Financial Reporting Entity", these financial statements present the funds of the Board. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading, if data were not included. Based on the criteria, there are no component units which should be included in the financial statements of the Harbor Beach Community Fire Protection Association.

#### **Measurement Focus, Basis of Accounting and Basis of Presentation**

The Association is presented as an enterprise fund. The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the liability is incurred or an economic asset is used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The Association follows all pronouncements of the Governmental Accounting Standards Board, and has elected not to follow Financial Accounting Standards Board pronouncements issued after November 30, 1989.

# **HARBOR BEACH COMMUNITY FIRE PROTECTION ASSOCIATION**

## **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)**

#### **Measurement Focus, Basis of Accounting and Basis of Presentation: (Continued)**

Preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

#### **Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash and cash equivalents have original maturities of three months or less from the date of acquisition.

#### **Capital Assets**

Capital assets of the Board are reported at cost or the fair market value at the time of contribution to the Association. Capital assets in service are depreciated using the straight-line method over the following useful lives:

	Years
Buildings	10-40
Equipment	5-20

### **NOTE 2 - DEPOSITS AND INVESTMENTS:**

Deposits are carried at cost. Deposits of the Association are made in banks in the name of the Harbor Beach Fire Department. Michigan Compiled Laws, Section 129.91, as amended by Public Act 196 of 1997, authorizes the Board Treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and direct obligations of the United States, or any agency or instrumentality of the United States in which the principal and interest is fully guaranteed by the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreements; bankers' acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rated by two standard rating agencies within the two highest classifications, which matures not more than 270 days after the date of purchase. The Association's deposits are in accordance with statutory authority.

# HARBOR BEACH COMMUNITY FIRE PROTECTION ASSOCIATION

## NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005

### NOTE 2 - DEPOSITS AND INVESTMENTS: (CONTINUED)

Deposits and investments at December 31, 2005 consist of the following:

		<u>Weighted Average Maturity</u>
<b>Deposits</b>		
Cash in bank		
Checking	\$ 2,295	
Insured money market	1,507	
<b>Investments (Market Value)</b>		
Governmental cash investment fund	76,054	.0027*
<b>Total cash and investments</b>	<u>\$ 80,556</u>	

\*.0027 equals one day maturity

The amount of the Association's deposits at December 31, 2005, that were covered by federal depository insurance totaled \$4,502.

### NOTE 3 - CHANGES IN CAPITAL ASSETS:

	<u>BALANCE DECEMBER 31, 2004</u>	<u>ADDITIONS</u>	<u>DISPOSALS</u>	<u>BALANCE DECEMBER 31, 2005</u>
<b>CAPITAL ASSETS:</b>				
Land (Non-depreciable)	\$ 8,544			\$ 8,544
Building and improvements	148,650			148,650
Equipment	<u>735,894</u>	<u>\$ 66,203</u>		<u>802,097</u>
<b>TOTAL CAPITAL ASSETS</b>	893,088	66,203		959,291
<b>Less: Accumulated depreciation</b>	<u>(593,043)</u>	<u>(39,489)</u>		<u>(632,532)</u>
<b>NET CAPITAL ASSETS</b>	<u>\$ 300,045</u>	<u>\$ 26,714</u>		<u>\$ 326,758</u>

# **HARBOR BEACH COMMUNITY FIRE PROTECTION ASSOCIATION**

## **NOTES TO FINANCIAL STATEMENTS DECEMBER 31, 2005**

### **NOTE 4 – SUBSIDY REVENUE:**

In the event that it is necessary to finance all or any part of the operation fund or capital expenditures of the Association by contribution, the contribution to be made to the Association each constituent unit shall be equal to that percentage or proportion which each constituent bears to the whole of the Association based upon the following formula: state equalized value of real property (70%); population (10%); number of dwelling units (10%); number of fire runs (5%); and miles of roads (5%). State equalized values and dwelling units shall be based upon the most recently completed U.S. Bureau of the Census Report. The number of fire runs shall be based upon the most recently completed prior five-year period. To be binding upon a constituent unit, any contribution must be authorized by resolution of the governing body of that constituent unit. The failure of the governing body of any constituent unit to authorize its contribution to the Association and/or to pay the same in full to the Association within thirty days of the commencement of the Association's fiscal year shall operate as an immediate withdrawal of that constituent unit from the Association.

Contributions for the year ended December 31, 2005 were \$47,197 and \$48,373 for the City of Harbor Beach and the Township of Sand Beach, respectively.

### **NOTE 5 - RISK MANAGEMENT:**

The Association is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, and natural disasters. The Association participated in the Michigan Municipal Liability and Property Pool for claims related to property loss, general liability, errors and omissions and auto liability. The Association also participates in the Michigan Municipal Worker's Compensation Fund for claims related to workers compensation. The Pool operates as a common risk-sharing management program for governmental units in Michigan. Member premiums are used to purchase insurance coverage and to pay member claims in excess of deductible amounts.

### **NOTE 6 – SUBSEQUENT EVENT:**

During 2006, the Association purchased a parcel of land from the Eastern Huron Ambulance Service for \$70,000. The land was financed with a note payable to Eastern Huron Ambulance Service in the amount of \$45,000 which requires two annual installments of \$22,500 due at September 30, 2007 and 2008.

August 7, 2007

To the Members of the Association  
Harbor Beach Community Fire  
Protection Association  
Harbor Beach, Michigan

The following comments relate to situations brought to our attention during the course of our recent audit of the financial statements of the Harbor Beach Community Fire Protection Association for the year ended December 31, 2005 and are submitted for your evaluation and consideration. We would like to emphasize that our audit was conducted for the purpose of expressing opinions on the aforementioned financial statements; therefore, the following comments are not necessarily all-inclusive.

**Off-site Back-up of Records:**

Currently, the Association's records are backed up and kept at the same location as the original records. We would recommend developing a disaster recovery plan and keeping a back-up of all the Association's records at an off-site location.

**Capitalization Policy:**

During our audit, we noted that the Association has no formal policy for the capitalization of property and equipment purchases. This leaves the possibility that a capital asset will not be appropriately recorded. We suggest that the Association implement a written policy requiring all assets costing more than an established amount, such as \$1,000, to be capitalized and depreciated over the assets useful life.

**Record Completeness:**

During our cash disbursement testing, there were several checks issued without corresponding invoices. We strongly recommend turning in original invoices as support for each disbursement. No copies should be accepted.

**Bank Account Authorization:**

Our audit process disclosed that the Signature Bank checking account was not updated in a timely manner to reflect changes in authorized check signers. A former board chairman was still listed on the signature card. This is a major oversight and increases the potential for abuse. Only current authorized association officers should be responsible for such an important control over cash disbursements. In an effort to maintain stronger internal controls, we suggest that management annually review and approve the authorized check signers on record with the bank and make any necessary updates as soon as possible.

**Segregation of Duties:**

Due to the limited number of people sitting on the Association's board, many critical duties are combined and given to the available members. Presently, a single individual prepares and signs checks, reconciles bank accounts, performs all payroll duties as well as maintains the general ledger. Also, the same person responsible for cash disbursements is responsible for handling and depositing of cash receipts and posts to the cash receipts and maintains the accounts receivable subsidiary. Members who have both custodial and record keeping responsibilities for the same asset create a significant internal control weakness.

While we understand that a complete segregation of duties is impractical for a small board with limited personnel, we believe that some relatively minor changes could be made which would significantly improve controls. To the extent possible, duties should be segregated to serve as a check and balance on the member's integrity and to maintain the best control system as possible. We suggest that the duties of cash disbursements and cash receipts are separated from the duties of the bank account reconciliation.

**Investment policy under GASB 40:**

During the course of our audit, it was noted that the Association has not amended their investment policy to address the various areas of risk as described by GASB Statement No. 40. Deposit and investment resources often represent significant assets of the Association's funds. These resources are necessary for the delivery of the Association's services programs. GASB Statement No. 40 is designed to inform financial statement users about deposit and investment risks that could affect the Association's ability to provide services and meet its obligations as they become due.

We recommend the Board review their current investment policy and make the necessary amendments to address custodial credit risk, concentration of credit risk, interest rate risk, and foreign currency risk, if applicable. Such policies are required to be disclosed in the notes to the Association's financial statements by GASB Statement No. 40.

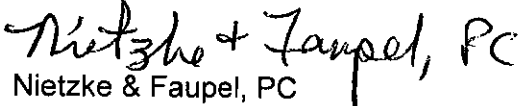
**New Statements on Auditing Standards – SAS 112 and 103:**

The AICPA Auditing Standards Board (ASB) issued Statements on Audit Standards (SAS) 112 which establishes standards and provides guidance on communicating matters related to an entity's internal control over financial reporting and is effective for periods ending after December 15, 2006. Any significant internal control deficiencies and material weaknesses identified during the course of the audit will be communicated to you in writing and will be repeated every year the deficiency or weakness exists. According to SAS 112, it is considered to be a control deficiency if a client we are auditing has ineffective controls over the preparation of their financial statements such that client controls are absent or controls are not effective in preventing or detecting material misstatements in the preparation of the financial statements, including the related footnotes.



The AICPA ASB also issued SAS 103 which may require us to modify the way we document our audit work. Issues and explanations that, in the past, we may have supported through your oral explanations and inclusion of schedules or documents without detailed descriptions may no longer be acceptable under SAS No. 103. Our firm is now required to document our work and conclusions in enough detail to allow an experienced auditor to understand the work.

The above recommendations are being made in an effort to improve the Association's system of record keeping. If you have any questions regarding these recommendations, please contact us.

  
Nietzke & Faupel, PC  
Pigeon, Michigan